

**POWDER MOUNTAIN
WATER AND SEWER DISTRICT**

Financial Statements

December 31, 2005 and 2004

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CARVER HOVEY & FLOREK, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' REPORT

Board of Trustees
Powder Mountain Water and Sewer District

We have audited the accompanying basic financial statements of Powder Mountain Water and Sewer District as of and for the years ended December 31, 2005 and 2004, and the related statements of revenues, expenses and net assets, and cash flows for the years then ended, which collectively comprise the District's basic financial statements as listed in the table of contents, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Powder Mountain Water and Sewer District.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance that the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Powder Mountain Water and Sewer District as of December 31, 2005 and 2004, the results of its operations, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2006 on our consideration of the Powder Mountain Water and Sewer District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Carver Hovey & Florek, LLC

June 29, 2006

**POWDER MOUNTAIN WATER AND SEWER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Our discussion and analysis of Powder Mountain Water and Sewer District's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

- ❖ The District's net assets increased \$406,437 as a result of this year's operations. This is a 60.6% increase in the net assets as compared to the prior year.
- ❖ The District's revenues were \$699,722, which was an increase of \$338,626 over the prior year. \$559,250 of revenue was from impact/connection fees that will be reserved for future improvements and debt service. \$76,359 of this amount was disbursed for improvements and debt payments.
- ❖ The District's operating expenses for the year were \$177,041, which was an increase of 34.1% from the year ended December 31, 2004.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements: The Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows. These statements provide information about the activity of the District as a whole and present a longer-term view of the District's finances. Since the District is operated as a proprietary fund, there are no fund statements presented because all operations of the District are reported using the accrual method of accounting.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets report information about the District as a whole and about its activities in a way that helps determine if the District is better or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets equal the difference between assets and liabilities. This is one way to measure the District's financial position. Increases or decreases in the District's net assets are one indicator of whether the financial position of the District is improving or deteriorating. You will need to consider other non-financial factors, such as the condition of the District's water and sewer distribution systems to assess the overall health of the District.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, the District shows all of its activities in one fund.

REPORTING THE DISTRICT'S SIGNIFICANT FUND

The District has only one fund, which accounts for the activity of the District. The entity-wide financial statements provide detailed information about the operations of the District as a whole. The District's only fund is operated as an enterprise fund. Enterprise funds are reported using an accounting method called accrual accounting, which records expenses when they are incurred and records revenues when they are earned. The District does not have any governmental type funds.

THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

THE DISTRICT AS A WHOLE

Business-type activities - The District charges fees to customers for water and sewer services, and other O&M costs and connection costs associated with the water and sewer systems. These fees along with property taxes cover all or most of the cost of services associated with providing water and sewer services.

Net assets of the District changed by \$406,437 from a year ago, increasing from \$670,940 to \$1,077,377. The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's business-type activity.

Table 1
Net Assets

	Business-type	Activities
	2005	2004
Current and other assets	\$ 647,559	\$ 243,533
Capital assets, net of depreciation	877,293	860,405
Total assets	\$ 1,524,852	\$ 1,103,938
Long-term debt outstanding	\$ 426,250	\$ 412,498
Other liabilities	21,225	20,500
Total liabilities	447,475	432,998
Net assets:		
Restricted	467,427	72,656
Unrestricted	609,950	598,284
Total net assets	1,077,377	670,940
Total liabilities and net assets	\$ 1,524,852	\$ 1,103,938

Net Assets of the District are \$1,077,377. *Unrestricted* net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - are \$609,950. These net assets are used to finance the continuing operations of providing water and sewer services to citizens within the District's boundaries.

Table 2
Change in Net Assets

	<u>Business-type</u>	<u>Activities</u>
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues:		
Charges for services	\$ 114,973	\$ 103,874
General revenues:		
Property taxes	13,246	11,835
Connection fees	559,250	240,500
Other general revenues	12,253	4,887
Total revenues	<u>699,722</u>	<u>361,096</u>
Program expenses		
Connection fees	90,000	4,000
Contract services	28,093	15,886
Depreciation	27,844	26,273
Insurance	2,405	2,865
Interest expense	26,244	25,128
Land rental and easements	20,944	15,131
Materials and supplies	3,081	1,418
Meeting and trustee fees	12,255	15,335
Repairs and fuel	63,984	27,342
Utilities	10,252	10,298
Wages	2,200	12,451
Water	5,983	5,705
Total expenses	<u>293,285</u>	<u>161,832</u>
Change in net assets	406,437	199,264
Net assets - beginning	<u>670,940</u>	<u>471,676</u>
Net assets - ending	<u><u>\$ 1,077,377</u></u>	<u><u>\$ 670,940</u></u>

BUDGETARY HIGHLIGHTS

Over the course of the year, the Board made no revisions to the District's budget.

Since the District operates as an enterprise fund, it is only required to comply with the budget on an entity wide basis. Without any budget adjustments, the actual charges to expenses were \$146,285 above the final budgeted amount. Income was \$552,722 higher than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the District had net capital assets of \$877,293 in a broad range of capital assets, including land, equipment, and water and sewer systems lines.

Capital Assets at Year-End (Net of Depreciation)

	2005	2004
Land	\$ 1,337	\$ 1,337
Water and sewer system	875,956	859,068
Net capital assets	<u>\$ 877,293</u>	<u>\$ 860,405</u>

Capital asset additions during the fiscal year 2005 were \$44,733. These additions consisted of additions to the District's buildings and equipment, and additions to sewer lagoons. The District has budgeted \$26,000 for new capital expenditures for the fiscal year 2006.

Debt

At year-end, the District had \$83,110 in notes and \$343,140 in other long-term liabilities. This is an increase of \$10,770 from last year's outstanding balances.

	2005	2004
Note payable - Powder Mountain, Inc.	\$ 6,019	\$ 14,681
Note payable - Western America, Inc.	77,091	70,788
Bond guarantee	149,875	149,875
Accrued interest	193,265	177,154
Total	<u>\$ 426,250</u>	<u>\$ 412,498</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economic situation for the area covered by the Powder Mountain Water and Sewer District has improved in the last several years. Development has increased, and further substantial development is planned. The major employers are agriculture and recreation.

The District budgeted revenues in the amount of \$487,596 for the fiscal year 2006, which consists of property taxes, impact fees, interest, water and sewer service fees and connection fees. Total expenditures for 2006 were budgeted at \$219,200 to cover salaries and operating expenses. The District has budgeted for the purchase of a generator in 2006. Some new construction is expected in the area served by the District which will result in an increase in connection fees. The amount is indeterminable.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office at P.O. Box 270, Eden, Utah 84310.

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENTS OF NET ASSETS
PROPRIETARY FUND
December 31, 2005 and 2004

	ASSETS	
	<u>2005</u>	<u>2004</u>
Current assets:		
Cash - checking	\$ 19,275	\$ 6,018
Cash - Public Treasurer's Fund (Note 2)	16,619	5,040
Cash - Public Treasurer's Fund restricted for capital improvements	467,427	72,656
Accounts receivable - services (Note 3)	36,863	98,875
Accounts receivable - other	11,985	3,597
Prepaid water	<u>6,179</u>	<u>5,983</u>
Total current assets	558,348	192,169
Non-current assets:		
Land	1,337	1,337
Water and sewer systems	1,383,696	1,338,964
Less accumulated depreciation	(507,740)	(479,896)
Accounts receivable - delinquent (Note 3)	<u>89,211</u>	<u>51,364</u>
Total noncurrent assets	966,504	911,769
Total assets	<u><u>\$ 1,524,852</u></u>	<u><u>\$ 1,103,938</u></u>

See accompanying notes and accountants' report

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENTS OF NET ASSETS (Continued)
PROPRIETARY FUND

December 31, 2005 and 2004

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Current liabilities:		
Accounts payable	\$ 17,225	\$ 20,500
Connection fee payable	<u>4,000</u>	<u>-</u>
Total current liabilities	21,225	20,500
Long-term liabilities:		
Due Powder Mountain, Inc. (Note 5)	6,019	14,681
Due Western America (Note 6)	77,091	70,788
Bond guarantee (Note 7)	149,875	149,875
Accrued interest	<u>193,265</u>	<u>177,154</u>
Total long-term liabilities	426,250	412,498
Total liabilities	<u>447,475</u>	<u>432,998</u>
Net assets:		
Contributed capital	77	77
Restricted for impact capital improvements (Note 16)	467,427	72,656
Unrestricted	<u>609,873</u>	<u>598,207</u>
Total net assets	1,077,377	670,940
Total liabilities and net assets	<u><u>\$ 1,524,852</u></u>	<u><u>\$ 1,103,938</u></u>

See accompanying notes and accountants' report

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Water service fees	\$ 40,318	\$ 45,097
Sewer service fees	74,655	60,156
Other income	2,156	2,108
Total operating revenue	<u>117,129</u>	<u>107,361</u>
Operating expenses:		
Depreciation	27,844	26,273
Electricity	10,252	8,203
Engineering and consulting	17,839	10,107
Insurance	2,405	2,865
Land rental and easement	20,944	15,131
Legal and accounting	10,254	5,779
Meeting and trustee fees	12,255	15,335
Miscellaneous	60	104
Office	74	724
Permits and testing	57	199
Repairs and fuel	63,984	27,733
Telephone	2,890	2,095
Wages	2,200	12,451
Water payments	5,983	5,705
Total operating expenses	<u>177,041</u>	<u>132,704</u>
Operating loss	(59,912)	(25,343)
Nonoperating revenues (expenses):		
Interest income	10,097	1,400
Interest expense	(26,244)	(25,128)
Connection fees received	559,250	240,500
Connection fees paid	(90,000)	(4,000)
Tax revenue	13,246	11,480
Fees - in lieu	-	355
Total nonoperating revenue	<u>466,349</u>	<u>224,607</u>
Change in net assets	406,437	199,264
Total net assets, beginning of year	<u>670,940</u>	<u>471,676</u>
Total net assets, end of year	<u>\$ 1,077,377</u>	<u>\$ 670,940</u>

See accompanying notes and accountants' report

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS
PROPRIETARY FUND

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 702,591	\$ 247,040
Cash received from property taxes	3,636	11,835
Cash received from other operating activities	12,253	3,508
Cash payments to suppliers	(246,600)	(111,613)
Cash payments to employees	(2,200)	(12,451)
Net cash provided by operating activities	<u>469,680</u>	<u>138,319</u>
Cash flows from capital and related financing activities:		
Payment on debt	(5,341)	(4,698)
Acquisition and construction of capital assets	(44,732)	(70,216)
Net cash provided by noncapital financing activities	<u>(50,073)</u>	<u>(74,914)</u>
Cash flow from investing activities	-	-
Net increase in cash and cash equivalents	419,607	63,405
Cash and cash equivalents at beginning of year	<u>83,714</u>	<u>20,309</u>
Cash and cash equivalents at end of year	<u><u>\$ 503,321</u></u>	<u><u>\$ 83,714</u></u>

See accompanying notes and accountants' report

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATEMENTS OF CASH FLOWS (Continued)
PROPRIETARY FUND

For the Years Ended December 31, 2005 and 2004

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

ACTIVITIES:

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Net income	\$ 406,437	\$ 199,264
Adjustment to reconcile operating income to net cash provided by operating activities:		
Depreciation	27,844	26,273
Decrease in accounts receivable	18,759	(98,713)
(Increase) decrease in prepaid water	(196)	(279)
Increase (decrease) in accounts payable	725	(4,338)
Increase (decrease) in accrued expenses	16,111	16,112
Net cash provided by operating activities	<u>\$ 469,680</u>	<u>\$ 138,319</u>

SUPPLEMENTAL DISCLOSURES

Non-cash investing activities	\$ -	\$ -
Operating activities reflect:		
Interest paid	\$ 10,132	\$ 9,016
Taxes	\$ -	\$ -

See accompanying notes and accountants' report

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Powder Mountain Water and Sewer District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The Powder Mountain Water and Sewer District is a special district organized in 1978 by the Weber County Commission for the purpose of providing sewage treatment services to Powder Mountain area. The District operates under a Board of Trustees form of government. In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based on the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Included in the reporting entity:

There are no component units.

Fund Accounting

Enterprise Fund--The operating fund is used to account for water and sewer utility operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through use charges.

Basis of Accounting

Enterprise Fund – The Service Area's operations are accounted for within an enterprise fund, since periodic determination of revenues earned and expenses incurred is appropriate for capital maintenance, management control and accountability. The Service Area's activities are accounted for using the accrual basis of accounting required for enterprise funds. Operating revenues are recognized when they are earned. Expenses are recognized when they are incurred.

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the enterprise fund. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not used by the District.

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with the Utah State Treasurer's Investment Pool. Investments are stated at cost.

State statutes authorize the government to invest in deposits of qualified depositories, repurchase agreements, commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services, Inc. or Standard and Poor's Corporation, Bankers Acceptances, obligations of the U.S. Treasury, and other financial investments as authorized in Utah Code Section 51-7-11.

The District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Compensated Absences

District policy does not provide for vested or accumulated vacation leave.

Inventories

No significant inventories are maintained by the District, therefore, none are reflected in these statements.

Fixed Assets

All purchased fixed assets are valued at cost. Depreciation is taken using the straight line method over 50 years for the water and sewer system, 5 - 10 years for equipment, and 30 years for tanks.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related fixed assets as applicable.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operation.

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Investments

During the year the District maintained its investments with financial institutions approved by the Utah Money Management Council. Investments are carried at cost. At year-end they consisted of the following:

	Carrying Amount	Market Value
Utah State Treasurer's Investment Pool	\$ 484,046	\$ 483,835
Key Bank Checking	19,275	19,275
	<u>\$ 503,321</u>	<u>\$ 503,110</u>

Cash in Key Bank checking is insured under FDIC limits.

The Utah Public Treasurer's Investments Fund (UPTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds.

NOTE 3 - ACCOUNTS RECEIVABLE

Customers are billed quarterly for water and sewer service fees. One customer has been disconnected for failure to pay. Court action has been initiated to collect the account. The balance of the account has been transferred to a long-term receivable account. The balances of all accounts at December 31 were:

	2005	2004
Current	\$ 36,862	\$ 98,875
Delinquent	89,211	51,364
	<u>\$ 126,073</u>	<u>\$ 150,239</u>

POWDER MOUNTAIN WATER AND SEWER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 - ACCOUNTS RECEIVABLE (Continued)

Disconnected customers are no longer charged service fees but are still billed interest charges.

Services to Powder Ridge Village account for approximately 24% of the total services billed. They are current on their account.

NOTE 4 - CAPITAL ASSETS

Depreciation on capital assets used in the enterprise fund has been provided on a straight-line basis as follows:

	<u>Depreciation Rate</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost Less Depreciation</u>
Land	NIA	\$ 1,337	\$ -	\$ 1,337
Water and sewer system	2-20%	<u>1,383,696</u>	<u>(507,740)</u>	<u>875,956</u>
		<u>\$ 1,385,033</u>	<u>\$ (507,740)</u>	<u>\$ 877,293</u>

Changes in capital assets:

	<u>Balance December 31, 2004</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Balance December 31, 2005</u>
Land	\$ 1,337	\$ -	\$ -	\$ 1,337
Water and sewer system	<u>1,338,964</u>	<u>44,733</u>	<u>-</u>	<u>1,383,697</u>
	<u>\$ 1,340,301</u>	<u>\$ 44,733</u>	<u>\$ -</u>	<u>\$ 1,385,034</u>

NOTE 5 - DUE TO POWDER MOUNTAIN, INC.

The District owes Powder Mountain, Inc. for water connections, easement charges, and other expenses paid by Powder Mountain, Inc. The balances at December 31, 2005 and 2004 were \$6,020 and \$14,681 respectively, including accrued interest at 10%.

NOTE 6 - DUE TO WESTERN AMERICA

The District owes Western America, Inc. for easement charges for using the land on which the District's sewer lagoons are located. The balances at December 31, 2005 and 2004 were \$77,091 and \$70,788 respectively, including accrued interest at 10%.

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 7 - BOND GUARANTEE

Powder Mountain, Inc. agreed to charge a \$.50 surcharge on each day pass or its equivalent sold by Powder Mountain, Inc. for a five year period (to be selected by the District). These funds were to be deposited into the Security Fund. These funds are to accrue interest at 10.75% and become a payment obligation of the District until repaid. November 1994 was the final month of the 5 year period. The payable balances at December 31, 2005 and 2004 were \$343,140 and \$327,029 respectively.

NOTE 8 - RELATED PARTY TRANSACTIONS

The District rents property easements from Western America, Inc., Elkhorn Partnership, and Powder Mountain, Inc. Charges for the twelve months ended December 31, 2005 and 2004 were \$20,944 and \$14,676 respectively.

NOTE 9 - CONNECTION FEE AGREEMENT

On October 30, 1986, the District purchased the water system from Powder Mountain, Inc. A down payment of \$35,000 was made. In addition, the District will pay Powder Mountain, Inc. \$2,000 for each new water connection until an additional sum of \$165,000 has been paid. The current balance is \$123,000. The District will also furnish, at no additional cost, 60 water connections to Powder Mountain, Inc. upon request. 50 connections remain to be issued. Powder Mountain, Inc. has granted the District an easement for access to water and sewer lines on its property. The District will pay a rent of \$1 per month per residential connection and \$5 per month per commercial connection.

The District has purchased certain facilities and lines owned by Dr. Alvin Cobabe for \$10. The District also provided him 60 water connections upon request. The District has constructed a new storage reservoir and supply system on land owned by Dr. Cobabe so the District pays Dr. Cobabe \$1 per month per residential connection and \$5 per month per commercial connection as rent and easement rights on said land.

A contract has been signed for these sales and should be referred to for further details.

On August 4, 1997, the District passed a resolution adopting a water and sewer connection impact fee. The sewer impact fee is \$6,500. The water impact fee is \$5,000 per connection.

NOTE 10 - BOND SETTLEMENT AGREEMENT - CONTINGENT LIABILITY

On February 3, 1997 the District signed a bond settlement agreement with Zion's First National Bank (the Indenture Trustee) in which the District was relieved from the obligation of the 1989 Series Bonds, \$1,700,000 and all interest accrued against the bonds. In exchange, the District paid the bond Trustee \$232,655 cash, the balance of 10 installment notes still owing on the sale of 18 lots, 3 developed unsold lots, 72 condominium pads, 1.91 acres commercial land, and a commitment to pay \$500 for each new water or sewer connection sold by the District until a sum of \$100,000 has been paid. In addition, the District agreed to pay Dr. Alvin Cobabe \$100,000 under the same terms in order to obtain clear title to certain lands transferred. \$56,000 has been paid to each leaving a balance of \$44,000 each.

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 11 - CHANGES IN LONG-TERM DEBT

Changes in long-term debt as of December 31, 2005 are detailed in the following summary:

	Balance December 31, 2004	Additions/ Deletions	Balance December 31, 2005
Notes payable	\$ 85,467	\$ (5,340)	\$ 80,127
Bond guarantee	149,875	-	
Accrued interest	177,154	16,112	193,266
Total	<u>\$ 412,496</u>	<u>\$ 10,772</u>	<u>\$ 423,268</u>

NOTE 12 - PENSION PLAN OBLIGATION

The Company has no established pension plans, nor any such obligations.

NOTE 13 - LEGAL COMPLIANCE BUDGETS

The budget for the fiscal year ended December 31, 2005, was approved and adopted by resolution or ordinance dated December 1, 2004. A public hearing, meeting the requirements specified in the Utah Code 11-35-113/114, was held on December 1, 2004. The budget was not amended during the year.

NOTE 14 - PROPERTY TAX CALENDAR

Lien date	Jan. 1
Taxing districts notify the county of date, time, and place of public hearing	March 1
County auditor send valuation certified tax rate and levy worksheets to each taxing district	June 8
Taxing district must adopt a proposed tax rate, certify the rate and levy, and submit to the county auditor	Before June 22
Taxing district adopts a final tax rate if there is no increase in certified tax rate	June 22
Taxing district adopts final budget	Dec. 1
Copy of the budget is submitted to state auditor within 30 days of adoption	

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 15 - RISK MANAGEMENT

Powder Mountain Water and Sewer District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. The District maintains comprehensive insurance coverage in aggregate amounts sufficient to protect against all reasonably foreseeable liability risks. Specific liability policies purchased include automobile, general liability, property, bond (employee dishonesty), treasurer, public officials and officers, excess liability, and workman's compensation. As of December 31, 2005, there is no anticipation of unpaid claims. Therefore, a liability is not accrued.

Deposits and investments for local government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the local government's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk for deposits is the risk that in the event of a bank failure, the local government's deposits may not be recovered. The local government's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the local government to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005, none of the local government's bank balances of \$19,275 were uninsured and uncollateralized.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The local government's policy for limiting the credit risk of investments is to comply with the Act.

The local government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

For the year ended December 31, 2005, the local government had investments of \$484,046 with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

POWDER MOUNTAIN WATER AND SEWER DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE 15 - RISK MANAGEMENT (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The local government manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

NOTE 16 - RESERVE FOR IMPACT FEES

The District accounts for impact fees collected as required by state law. The impact fee reserve balance and restricted cash at December 31, 2005 and 2004 were \$467,427 and \$72,656 respectively.

POWDER MOUNTAIN WATER
AND SEWER DISTRICT

Auditor's Report and
Auditor's Management Letter

December 31, 2005

AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE
NO STATE GRANTS RECEIVED BY ENTITY

Board of Trustees
Powder Mountain Water and Sewer District

We have audited the general purpose financial statements of Powder Mountain Water and Sewer District for the year ended December 31, 2005, and have issued our report thereon dated June 29, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other Compliance Requirements
Special District Compliance Items
Impact Fees

The District did not receive any major or non-major State grants during the year ended December 31, 2005.

The management of the District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material non-compliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed an immaterial instance of noncompliance with the requirements referred to above, which is described in the accompanying schedule of findings and questioned costs. We considered this instance of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion the Powder Mountain Water and Sewer District, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Camer Hovey & Flouk, LLC

June 29, 2006

POWDER MOUNTAIN WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - STATE LEGAL COMPLIANCE
DECEMBER 31, 2005

1. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

State compliance requires that expenditures should not be incurred in excess of appropriated or budgeted funds. Total expenses for the year ended December 31, 2005 exceeded budgeted expenses by \$406,437. Actual revenues were \$462,722 more than budgeted revenues.

Management Response:

The District will take measures to establish appropriate budgets and expend funds within those guidelines.

POWDER MOUNTAIN WATER AND SEWER DISTRICT
STATUS OF YEAR 2004 FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2005

1. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

State compliance requires that expenditures should not be incurred in excess of appropriated or budgeted funds. Total expenses for the year ended December 31, 2004 exceeded budgeted expenses by \$38,862. Actual revenues were \$237,096 less than budgeted revenues.

Management Response:

The District will take measures to establish appropriate budgets and expend funds within those guidelines.

Status: Partially implemented.



CARVER HOVEY & FLOREK, LLC

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN L. CARVER, CPA
KATHLEEN L. HOVEY, CPA
BRENT R. FLOREK, CPA

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Powder Mountain Water and Sewer District
Eden, Utah

We have audited the general purpose financial statements of the Powder Mountain Water and Sewer District, as of and for the year ended December 31, 2005, and have issued our report thereon dated June 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powder Mountain Water and Sewer District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the management in a separate letter dated June 29, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powder Mountain Water and Sewer District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over the financial reporting and its operation that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
(Continued)

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Camer Hovey & Flouk, LLC

June 29, 2006



CARVER HOVEY & FLOREK, LLC

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN L. CARVER, CPA
KATHLEEN L. HOVEY, CPA
BRENT R. FLOREK, CPA

June 29, 2006

Honorable Board of Trustees
Powder Mountain Water and Sewer District
Eden, UT

We have recently completed our audit examination of the general purpose financial statements of the Powder Mountain Water and Sewer District for the year ended December 31, 2005 and 2004. Except as noted in the finding on the attached page, we did not observe any areas in which you are not in compliance with laws or regulations.

We wish to express our appreciation for the cooperation of your personnel during the course of our audit. If you have any questions concerning the above items, please call us.

Sincerely,

Gordon H. James
Certified Public Accountant

POWDER MOUNTAIN WATER AND SEWER DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – STATE LEGAL COMPLIANCE
DECEMBER 31, 2005

1. EXCESS OF EXPENDITURES OVER BUDGET BY DEPARTMENT

State compliance requires that expenditures should not be incurred in excess of appropriated or budgeted funds. For the year ended December 31, 2005 total expenses exceeded the budget by \$406,437 and actual revenues exceeded the budget by \$462,722.